

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
William L. Massey, Linda Breathitt,
and Nora Mead Brownell.

San Diego Gas & Electric Company

v.

Docket No. EL00-95-012

Sellers of Energy and Ancillary Services
Into Markets Operated by the California
Independent System Operator Corporation
and the California Power Exchange Corporation

ORDER REJECTING COST JUSTIFICATIONS FOR RATES
IN EXCESS OF THE PROXY MARKET CLEARING PRICE
AND ORDERING REFUNDS

(Issued September 7, 2001)

I. Introduction

In this order, we reject cost justifications submitted by Reliant Energy Services, Inc. (Reliant), Williams Energy Services Corporation (Williams) and Mirant Americas Energy Marketing, LP, Mirant California, LLC, Mirant Delta, LLC, and Mirant Potrero, LLC (Mirant) for wholesale sales in the California Independent System Operator Corporation's (ISO) and Western Systems Coordinating Council (WSCC) markets in excess of the proxy market clearing price (mitigated price)¹ in June 2001 because they are either untimely filed and/or unsupported, and order refunds.²

¹For purposes of this order, we use the terms "proxy market clearing price" and "mitigated price" interchangeably.

²This order concerns only spot market transactions that occurred during the month of June 2001.

We also note that sellers who made wholesale sales in the spot markets in California and the rest of the WSCC in excess of the mitigated price during June 2001, but did not file cost justifications within the time period provided for doing so, are not entitled to receive more than the mitigated price.

II. Background

By order issued on April 26, 2001, the Commission established price mitigation for sales in the ISO's spot markets (ancillary services and imbalance energy), effective May 29, 2001.³ Under the April 26 Order, transactions above the proxy market clearing price during operating reserve deficiency hours would be subject to refund.⁴ At the end of each month in which a generator submits a bid higher than the market clearing price, the generator must file with the Commission and the ISO, within seven days of the end of the month, its complete justification, including a detailed breakdown of all of its component costs, for each transaction exceeding the market clearing price established by the proxy bid. The refund obligation will end 60 days from the date of each such filing, unless the Commission, within that period, notifies the seller otherwise.⁵ The April 26 Order also established an inquiry into whether a price mitigation plan similar to the one for California should be implemented in the WSCC.

By order issued on June 19, 2001, the Commission, inter alia, prescribed a market-driven price mitigation mechanism applicable in all hours to all wholesale sales in the spot markets in California and the rest of the WSCC commencing on June 20, 2001.⁶ Under the June 19 Order, in all hours, all spot market transactions above the proxy

³San Diego Gas & Electric Co., et al., 95 FERC ¶ 61,115 (2001), reh'g pending (April 26 Order).

⁴Periods of reserve deficiency are those periods beginning when Stage 1 is declared by the ISO.

⁵April 26 Order, 95 FERC at 61,359.

⁶San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Service into Markets Operated by the California Independent System Operator Corp. and the California Power Exchange Corp., et al., 95 FERC ¶ 61,418 (2001), reh'g pending (June 19 Order). The June 19 Order refers to "spot markets" or "spot market sales" as "sales that are 24 hours or less and that are entered into the day of or day prior to delivery." 95 FERC at 62,545 n.3. The June 19 Order provided that the price mitigation will terminate on September 30, 2002.

market clearing price would be subject to refund. The June 19 Order explained the price mitigation mechanism as follows:

Sellers dissatisfied with these [mitigated] prices have two options. They may propose cost-based rates for their entire portfolio of generating facilities in the WSCC in a section 205 filing with cost support including a reasonable rate of return on investment that reflects the unique conditions in California. Alternatively, although we believe the mitigated price to be adequate, sellers can seek to justify each transaction above the mitigated price. Any such justifications, however, cannot include premiums to compensate for credit risk, since our market-clearing price for the ISO's markets already reflects an adder for this risk. Similarly, a seller's emission costs cannot be used to justify exceeding the market-clearing price because our order allows each seller to recover its emission costs directly from the ISO. Claims of opportunity costs will not be considered because energy that is available in real-time cannot be sold elsewhere. Also, as explained elsewhere, marketers will not be allowed to justify prices higher than the mitigated prices because they must be price takers. Finally, while our approach allows recovery of gas costs, we will consider justifications based on higher actual gas costs if conditions in natural gas markets change significantly (assuming, of course, that suppliers can document and support their gas purchasing portfolio and allocation among all generating units at the relevant time).^[7]

To date, of the sellers to the ISO that had transactions in excess of the proxy market clearing price in the month of June 2001, only Reliant, Williams and Mirant have filed cost justifications for that month. Reliant filed its cost justifications on July 9, 2001;

⁷95 FERC at 62,564 (footnote omitted). The Commission also recognized that, while emission costs outside of California were de minimis at that time, that may change, and that sellers could be subject to entirely new costs resulting from changes in circumstances. The Commission stated that it will consider such costs on a case-by-case basis. Id., n.75.

Williams filed its cost justifications on July 10, 2001; and Mirant filed its cost justifications on July 11, 2001.⁸

III. Discussion

A. Transactions that Occurred Between June 1 - June 19, 2001, the Period Covered by the April 26 Order's Price Mitigation

No operating reserve deficiencies occurred between June 1 and June 19, 2001. Therefore, spot market transactions during that period were not subject to refund, and no cost justifications were required for those transactions.

B. Transactions that Occurred from June 20 - June 30, 2001, the Period Covered by the June 19 Order's Price Mitigation

Reliant, Williams and Mirant filed cost information regarding transactions in excess of the mitigated price that occurred during the period from June 20 - June 30, 2001, the period covered by the June 19 Order.⁹

⁸Reliant, Williams and Mirant requested confidential treatment for their filings pursuant to section 388.112 of the Commission's regulations. 18 C.F.R. § 388.112 (2001).

⁹Williams also restates its general objections to the Commission's pricing methodology and the ordering of refunds and indicates that it intends to raise such issues on rehearing of the June 19 Order. As noted above, this order is addressing cost justification for transactions in excess of the mitigated price during the month of June 2001. This order is not addressing objections to the June 19 Order, except for the following clarification.

Mirant notes that the maximum clearing price identified by the ISO on its website (approximately \$91) differs from the price identified in the June 19 Order (approximately \$108). See 95 FERC at 62,548 n.14. Mirant states that the transactions that it is reporting exceed the maximum clearing price identified by the ISO, but do not exceed the maximum clearing price identified by the Commission in the June 19 Order. The maximum clearing price identified in the June 19 Order is incorrect. The maximum clearing price identified on the ISO's website reflects the methodology of the June 19 Order and is the correct price (without the adder for credit risk).

As noted above, under the procedures established by the April 26 Order, cost justifications for transactions in excess of the mitigated price are due within seven days of the end of the month. Since the seven-day period for filing cost justifications fell on a weekend, cost justifications for June were due on or before the next business day, which was July 9, 2001. Williams's cost justifications (filed on July 10) and Mirant's cost justifications (filed on July 11) were thus untimely filed. We reject Williams's and Mirant's cost justifications both because they are untimely and because neither company provided any actual cost support for its transactions beyond restating general objections to the Commission's pricing methodology. Therefore, consistent with the April 26 Order and the June 19 Order, Williams and Mirant must refund amounts in excess of the mitigated price.

Based on our review of Reliant's cost justifications, we find that Reliant has not supported costs above the mitigated price established pursuant to the June 19 Order. The information submitted by Reliant merely reflects its attribution of gas transportation and fuel costs to the specific transactions. That is not consistent with the requirements of the June 19 Order. In particular, Reliant did not identify any significant change in the natural gas markets, and Reliant did not document its entire gas portfolio or the allocation among all of its resources during the relevant time.¹⁰ Therefore, consistent with the April 26 Order and the June 19 Order, Reliant must refund amounts in excess of the mitigated price.

To the extent that other sellers in California and the rest of the WSCC had transactions in excess of the mitigated price during June 2001, and those sellers have not filed cost justifications for such transactions, the time for them to justify such transactions has lapsed, and they are not entitled to receive more than the mitigated price for such transactions.

The Commission orders:

(A) Reliant's, Williams's and Mirant's cost justifications for rates in excess of the proxy market clearing price for the period June 20, 2001 through June 30, 2001, are hereby rejected, as discussed in the body of this order.

¹⁰We note that, consistent with our June 19 Order, the cost support submitted by Reliant excluded emission costs or a premium for credit risk. However, Reliant has failed to justify its transactions in view of the other matters identified above.

(B) Reliant, Williams and Mirant are hereby ordered to refund amounts in excess of the ISO's proxy market clearing price, as discussed in the body of this order.

By the Commission. Commissioner Massey concurred with a
separate statement attached.

(S E A L)

Linwood A. Watson, Jr.,
Acting Secretary.

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MASSEY, Commissioner, concurring:

I write separately regarding transactions that occurred between June 1 and June 19. Those transactions are covered by our April 26th order, which required price mitigation only during operating reserve alerts. I dissented from this aspect of the April 26th order. I am not assured that prices during all hours between June 1 and June 19 are just and reasonable.

Therefore, I concur to underscore my view that the April 26th order is flawed. Nevertheless, today's order correctly implements it.

William L. Massey
Commissioner